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Office of the Legislative Auditor

REPORT TO THE LEGISLATURE

WESTERN MONTANA COLLEGE

Financial-Compliance Audit for the Two Fiscal Years Ended June 30, 1986

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Major items in this report include:

- Compliance with 1966 Revenue Bond Indenture
- Timely Utility Charges
- Compliance with State Accounting Policy
- Improving Accounts Receivable Procedures
- Compliance with Federal Regulations

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Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office.

Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

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April 1987

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on Western Montana College for the two fiscal years ending June 30, 1986. This report includes recommendations concerning the college's 1966 Revenue Bond deficit, compliance with state accounting policy and federal financial aid regulations, accounts receivable documentation and procedures, and timely utility payments from the Auxiliary Fund. The college's response to the report recommendations is contained at the end of the report.

We thank the President and his staff for their assistance and cooperation.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

Office of the Legislative Auditor

WESTERN MONTANA COLLEGE

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1986

Audit staff involved in this audit include: Julie Barr, Laurie Evans, Dan Gaughan, Pearl Highland, Wayne Kedish, Lisa Warburton, and Suzanne Wellcome.

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APPOINTED AND ADMINISTRATIVE OFFICIALS

BOARD OF REGENTS OF HIGHER EDUCATION

		Term Expires
Ted Schwinden, Governor*		1988
Ed Argenbright, Superintendent of Public Instruction*		1988
Dennis Lind, Chairman	Missoula	1989
Burt Hurwitz, Vice Chairman	White Sulphur Springs	1993
Scott Birkenbuel	Bozeman	1987
Beatrice McCarthy	Anaconda	1990
Elsie Redlin	Sidney	1991
Jim Kaze	Havre	1992
Jeffrey Morrison	Helena	1994

*Ex officio members

OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION

Dr. Carroll Krause	Commissioner of Higher Education
John H. Noble, Jr.	Deputy Commissioner for Management and Fiscal Affairs

WESTERN MONTANA COLLEGE ADMINISTRATIVE OFFICERS

Dr. Douglas Treadway	President (resigned, effective June 1, 1987)
Glen D. Leavitt	Director of Fiscal Affairs
Dennis Holschbach	Controller

SUMMARY OF RECOMMENDATIONS

This listing summarizes the recommendations contained in the report and the college's response to them.

	Page
Recommendation #1 The college:	
A. Ensure the debt service requirements of the 1966 revenue bond indenture are met.	5
Agency Response: Concur. See page 35.	
B. Address the operating fund deficit for the 1966 revenue bond.	5
Agency Response: Concur. See page 35.	
Recommendation #2 The college:	
A. Seek authorization for an inter-entity loan when cash balances are not sufficient to pay liabilities in a timely manner.	7
Agency Response: Concur. See page 35.	
B. Record and reimburse the General Operating Fund for Auxiliary Fund utility expenditures in a timely manner.	7
Agency Response: Concur. See page 35.	
Recommendation #3 The college record all its financial activity in accordance with state accounting policy.	9
Agency Response: Concur. See page 36.	

Page

Recommendation #4
The college comply with the state law requiring the reversion of Designated Fund investment earnings to the General Fund. 10

Agency Response: Concur. See page 36.

Recommendation #5
The college establish written procedures to:

A. Place only valid receivables on its accounting records. 11

Agency Response: Concur. See page 37.

B. Bill receivables in a timely manner. 11

Agency Response: Concur. See page 37.

C. Establish an allowance for the estimated amount of its uncollectible accounts on its accounting records. 11

Agency Response: Concur. See page 37.

Recommendation #6
The college:

A. Enforce its contract with a food service contractor to ensure College Work-Study disbursements are adequately supported. 13

Agency Response: Concur. See page 37.

B. Refund $9,289 of questioned federal College Work-Study costs to the Department of Education. 13

Agency Response: Do not concur. See page 37.

SUMMARY OF RECOMMENDATIONS (continued)

Page

Recommendation #7
The college improve review procedures to prevent future federal reporting errors. 14

Agency Response: Concur. See page 38.

Recommendation #8
The college establish procedures for reporting enrollment status changes in accordance with federal regulations. 15

Agency Response: Concur. See page 38.

Recommendation #9
The college implement adequate computer access, fire protection, and disaster recovery controls. 16

Agency Response: Concur. See page 39.

Recommendation #10
The college:

A. Comply with state policy for property accounting and management. 18

Agency Response: Concur. See page 40.

B. Complete implementation of its property accounting system. 18

Agency Response: Concur. See page 40.

SCOPE

We performed a financial-compliance audit of Western Montana College for the two fiscal years ended June 30, 1986. The objectives of our audit were to:

(1) determine the implementation status of prior audit recommendations;

(2) determine the college's compliance with applicable state and federal laws and regulations;

(3) make recommendations for improvement in the management and internal controls of the college; and

(4) determine if the college's financial statements present fairly its financial position at June 30, 1986 and the results of its operations for the two fiscal years ended June 30, 1986.

In accordance with section 5-13-307, MCA, we analyzed and disclose the costs, if significant, of implementing recommendations.

COLLEGE BACKGROUND AND OPERATIONS

The Third Legislative Assembly established Western Montana College (originally called the State Normal School) at Dillon in 1893. The original campus consisted of ten acres of land which were deeded "in Trust for the use and benefit of the State Normal School" in December 1894. Most of the college's buildings are located on the original ten acres, but the college has since purchased property which increased its total to 34 acres.

The first session of the school started September 7, 1897. The college has been primarily oriented toward the training and education of elementary and secondary teaching personnel. Initially, the college offered a two-year program in education. Currently, the college offers the following degrees:

-- Bachelor of Science degrees in Elementary Education, Secondary Education, Natural Heritage, and Business;

-- Bachelor of Arts degrees in History, English, and American Studies;

-- Master of Science degree in Education; and

-- Associate of Arts and Science degrees.

The Board of Regents of Higher Education supervises and controls the college. The Board of Regents appoints a president, who serves as the college's chief administrator. A local three-member executive board, which is appointed by the Governor, acts in an advisory capacity to the President.

On January 9, 1987, the Board of Regents passed a motion "that a plan be developed by the Presidents of the University of Montana and Western Montana College, and the Commissioner of Higher Education, to administratively merge Western Montana College as a four-year branch campus of the University of Montana by July 1, 1988." The motion included the following provisions which affect the college's current operations:

(1) the college will continue to offer baccalaureate degrees in teacher education;

(2) the college will discontinue its graduate programs and baccalaureate degrees in business, natural heritage, and American studies effective fall 1990;

(3) the college will also discontinue its football program at the end of the fall 1987 season;

(4) the college, in conjunction with the University of Montana, should develop an emphasis in tourism and recreation, consider offering a two-year associate degree, and implement a two-year transfer program; and

(5) the college should maintain a strong and visible campus administrator, and the budget should continue to be separately identified within the University System budget.

In addition, the Board of Regents passed the following motion:

> "Two years after the implementation of the merger plan (1990) a formal review of the merger will be held by the Regents. The affected units are asked to report their progress on the merger on a six month basis to the Board."

The state's General Fund and University Millage accounts provide the college's primary sources of operating revenue. The college also receives revenue from federal grants, student fees, land grant income, and auxiliary enterprise operations. During spring semester 1986, Western Montana College employed approximately 172 faculty and staff and 285 students. The college reported enrollment of 766 full-time equivalent students during spring semester 1986, as shown on the Schedule of Full-Time Equivalent (FTE) Students for the two fiscal years ended June 30, 1986, on page 33.

PRIOR AUDIT RECOMMENDATIONS

We performed a financial-compliance audit of the college for the two fiscal years ended June 30, 1984. The report contained 19 recommendations still applicable to the college. Of these 19 recommendations, the college implemented 11, partially implemented 7, and did not implement 1. The recommendations partially implemented concern:

(1) accounts receivable procedures discussed on pages 10 and 11;

(2) a federal reporting issue similar to those discussed on pages 13 to 14;

(3) property accounting discussed on pages 16 to 18;

(4) two federal assistance issues for which the college has taken action and is waiting for a federal response;

(5) an inventory issue which the college is addressing; and

(6) an $82 financial aid overaward. As of November 20, 1986, the college had neither contacted the student nor repaid $82 on the student's behalf, as the college had indicated it would do in a December 1985 letter to the U.S. Department of Education.

The recommendation not implemented concerns improving data processing controls and is discussed on pages 15 and 16 of this report.

HOUSING AND DINING OPERATION

1966 Revenue Bond

In 1966, the college issued revenue bonds to fund its housing and dining facilities. The 1966 Revenue Bond Indenture requires that net annual earnings in the bond's operating account be sufficient to pay principal and interest on the bond, or $79,603 for fiscal year 1985-86. The college violated the terms of the 1966 bond indenture during fiscal year 1985-86 when the operating account sustained a loss of $27,425, or $107,028 less than required.

The following financial activity caused fund balance to decrease by $58,807 during fiscal year 1985-86:

Net Current Operating Loss	$(27,425)
Transfers In from 1967 Physical Education Indenture Reserve	50,000
Transfers Out	(35,735)
Prior Year Adjustments	(24,515)
Equipment Acquisitions	(21,132)
Total Decrease in Fund Balance	$(58,807)

As a result, the college increased its deficit fund balance of $42,720 in its 1966 Revenue Bond operating account at June 30, 1985 to a $101,527 deficit at June 30, 1986. The college's ability to pay bills for its housing and dining program has also been affected, as noted in the discussion of utility charges in the next section of this report.

In May 1986, the Board of Regents considered the problems Western Montana College was experiencing in meeting debt service payments on its 1966 Revenue Bond. University system officials stated the reasons for these problems included a declining number of entering freshmen, increased availability of local housing, resistance to food plan, and conditions of residence halls. To alleviate these problems, the Board of Regents authorized the college to:

(1) increase building fees pledged to the 1966 Revenue Bond from $15 to $30 per semester;

(2) establish a student union use fee of $4.50 per semester for students enrolled for six credits or less and $9 per semester for students enrolled for seven credits or more; and

(3) transfer $50,000 from the 1967 Physical Education Indenture Reserve to the 1966 Revenue Bond operating account (as shown on page 4).

To eliminate the deficit and provide sufficient funds to meet the indenture requirements, officials stated the college has improved its housing facilities and implemented a new meal plan with a different fee structure. They stated that dormitory occupancy increased from 294 students during the fall 1985 semester to 350 students in the fall 1986 semester. To reduce the operating fund deficit for the 1966 Revenue Bond, the college must generate more revenue from housing and dining operations to meet debt service requirements, or transfer excess moneys from other operations, if any are legally available.

RECOMMENDATION #1

WE RECOMMEND THE COLLEGE:

A. ENSURE THE DEBT SERVICE REQUIREMENTS OF THE 1966 REVENUE BOND INDENTURE ARE MET.

B. ADDRESS THE OPERATING FUND DEFICIT FOR THE 1966 REVENUE BOND.

Utility Charges

The college initially pays all utility costs from the General Operating Fund. The college then charges the Auxiliary Fund's housing and dining program for its share of utility costs.

College personnel charged the Auxiliary Fund for July through December 1985 utilities in January 1986 and January through March 1986 utilities in April 1986. In June 1986, college personnel transferred cash from the Auxiliary Fund to the General Operating Fund to:

(1) pay $10,328 for April through June 1986 utilities; and

(2) pay $34,400 of the $81,825 previously charged for July 1985 through March 1986 utilities.

At June 30, 1986, the Auxiliary Fund still owed the General Operating Fund $47,425, or about 60 percent of these nine months utilities. The Auxiliary Fund's housing and dining program did not have sufficient cash at June 30, 1986, to reimburse the General Operating Fund for these utilities, due to the operating difficulties discussed in the previous section of this report. The Auxiliary Fund reimbursed the General Operating Fund for the remaining $47,425 of fiscal year 1985-86 utility costs in September 1986. As of March 31, 1987, the college's housing and dining program had not been charged for, and had not paid, any utility costs incurred after June 30, 1986. At the end of March 1987, the housing and dining program had insufficient cash to pay for its share of utilities.

The college's General Operating Fund is, in effect, financing Auxiliary Fund operations through an unrecorded loan because:

(1) college personnel do not record utility charges to the Auxiliary Fund on a timely basis; and

(2) the Auxiliary Fund is unable to transfer cash to the General Operating Fund for utility charges in a timely manner.

Section 17-2-107(5), MCA, requires inter-entity loans from the General Operating Fund to the Auxiliary Fund to "bear interest at a rate equivalent to the previous fiscal year's average rate of return on the board of investments' short-term investment pool." We estimate the state's General Fund lost about $2,200 in investment earnings because the college's General Operating Fund financed its Auxiliary Fund operations for fiscal year 1985-86 utility charges.

RECOMMENDATION #2

WE RECOMMEND THE COLLEGE:

A. SEEK AUTHORIZATION FOR AN INTER-ENTITY LOAN WHEN CASH BALANCES ARE NOT SUFFICIENT TO PAY LIABILITIES IN A TIMELY MANNER.

B. RECORD AND REIMBURSE THE GENERAL OPERATING FUND FOR AUXILIARY FUND UTILITY EXPENDITURES IN A TIMELY MANNER.

STATE COMPLIANCE

Accounting Issues

We noted several instances where the college made accounting errors on the state's financial accounting system. Section 17-2-110(3), MCA, requires agencies to record financial activities in accordance with generally accepted accounting principles and state accounting policy. Properly accounting for financial activity improves the quality, consistency, and comparability of the resulting financial information. Financial information at the college is used by college administrators, regents, legislators, and others to manage and establish funding levels for the college.

College personnel adjusted the financial statements included in this report for some of the errors we found; however, the errors we discuss below still exist on the state's accounting records. The accounting errors we noted include those listed below.

(1) College personnel record grant money as revenue when received. Such funds are earned, and should be recorded as revenue, when expended. As a result, the college understated accounts receivable and revenue by $21,051 in fiscal year 1984-85 and understated deferred revenue and overstated revenue by $240,580 in fiscal year 1985-86 in the Current Restricted Fund.

(2) The college received funds from a bond issue to purchase computer equipment during fiscal year 1985-86. College personnel recorded the original issue and investment earnings in the Retirement of Indebtedness Fund; then transferred money to the Unexpended Plant Fund, where

equipment purchases were recorded. Bond issues and related investment earnings should be recorded in the Unexpended Plant Fund with transfers to the Retirement of Indebtedness Fund to make bond payments. When equipment is purchased, the related Bond Payable should be recorded in the Net Investment in Plant Fund. Sixteen misstatements, ranging from $64 to $102,481, occurred in the Unexpended Plant, Retirement of Indebtedness, and Net Investment in Plant Funds as a result.

(3) College personnel recorded personal service expenditures for maintaining the physical education building in the Unexpended Plant Fund in fiscal year 1984-85. In fiscal year 1985-86, these expenditures were properly recorded in the Auxiliary Fund. As a result, in fiscal year 1984-85, misstatements of $113,626 occurred in the Auxiliary and Unexpended Plant Funds.

(4) In fiscal years 1984-85 and 1985-86, the private sources gave the college money with the stipulation the money be used for scholarships. Since this money is restricted regarding use and the college's Scholarship Committee, rather than the donor, determines scholarship recipients, the college should record this activity in the Current Restricted Fund. Because it did not record this activity in fiscal years 1984-85 and 1985-86, the college understated revenue and expenditures in the Current Restricted Fund by $78,300 and $78,800, respectively.

(5) College personnel did not record the cost of providing room and board to dormitory resident advisors and managers, as payment for their services, on the state's accounting records. Although no money changed hands, in essence, the college paid the resident advisors and managers for their services; and the resident advisors and managers paid the college for the cost of their room and board. The substance of these transactions should be recorded in the accounting records. As a result, the college understated Auxiliary Fund revenues and expenditures by $37,900 and $47,800 in fiscal years 1984-85 and 1985-86, respectively.

(6) The college recorded expenditures for the roof repair of the Student Union Building in the Auxiliary Fund. Money for capital repairs should be transferred from the fund financing the repair (in this case, the Auxiliary Fund) to the Renewal and Replacement Plant Fund. Any expenditures for capital repairs should then be recorded in the Renewal and Replacement Fund. As a result of this error, $36,185 misstatements occurred between expenditure and transfer control accounts in the Auxiliary and Renewal and Replacement Plant Funds during fiscal year 1985-86.

(7) A contractor manages and operates the college's dining service. The college processes the contractor's payroll and records the related personal service expenditures on the state's accounting records. When the contractor reimburses the college for its personal service costs, the college records revenue in its accounting records. To prevent recording financial activity not related to its operations, the college should establish a receivable when the contractor's payroll is processed and abate the receivable when it receives reimbursement from the contractor. As a result of recording the above activity, the college overstated Auxiliary Fund revenues and expenditures by $24,002 and $25,529 in fiscal years 1984-85 and 1985-86, respectively.

Most of the above errors occurred due to changes in the college's accounting personnel and changes in state accounting policy. The college hired a new controller early in fiscal year 1985-86. Until the new controller became familiar with the state's accounting system, college personnel continued to record transactions the same as they had in the past, although state accounting policy had changed. The second error noted above concerned bond transactions. These transactions do not occur frequently, are more complex than routine daily transactions, and were recorded during the college's busy fiscal year-end period. State accounting policy regarding bond transactions was issued only one month prior to fiscal year-end.

College personnel should become familiar with state accounting policy changes and analyze all financial activity to ensure it is recorded in accordance with state accounting policy.

RECOMMENDATION #3

WE RECOMMEND THE COLLEGE RECORD ALL ITS FINANCIAL ACTIVITY IN ACCORDANCE WITH STATE ACCOUNTING POLICY.

Investment Earnings

Section 17-2-107(5), MCA, requires that, "Except for investment earnings on restricted donations, all designated and restricted subfund investment earnings are credited to the state General Fund." College personnel, who were unaware of this statutory requirement, recorded

$1,329 and $1,778 of investment earnings in the Designated Fund during fiscal years 1984-85 and 1985-86, respectively. When made aware of the above requirement, college personnel abated the above investment earnings revenue and recorded a liability to the state's General Fund. In late February 1987, college personnel reverted the $3,107 of Designated Fund investment earnings by reducing the recorded liability and transferring cash to the Department of Administration's General Fund.

RECOMMENDATION #4

WE RECOMMEND THE COLLEGE COMPLY WITH THE STATE LAW REQUIRING THE REVERSION OF DESIGNATED FUND INVESTMENT EARNINGS TO THE GENERAL FUND.

ACCOUNTS RECEIVABLE

At June 30, 1986, the college's accounting records show $89,478 of accounts receivable from student registration fees. To determine: (1) the validity of these receivables, and (2) the extent to which the college had implemented our prior audit recommendation regarding accounts receivable, we sent confirmation letters to 10 persons listed in its accounts receivable system. The results of the letters are summarized as follows:

No response to letter or to follow-up telephone calls	3
No response to letter; telephone number and address no longer current	4
Response-Account balance was proper	1
Response-Person owes college, but believes account balance should be more than the amount shown on the college's receivable system	1
Response-Person does not owe the college and has never received a bill from the college. (The account balance was turned over to the Department of Revenue for tax offset.)	1
TOTAL	10

We also analyzed the college's General Operating Fund registration receivables and found $35,746, or 40 percent, were over

two years old at June 30, 1986. Of these $22,426, or 25 percent of the total registration fee receivables were over three years old at June 30, 1986. In addition, the receivable balance includes accounts which have been turned over to the Department of Revenue for tax offsets. The college has not established an allowance for uncollectible accounts for these receivables. By not recording an allowance, the college indicates to users of information on its accounting system that all amounts are collectible. The results of our confirmations indicate this may not be true.

We also found the college had not yet completely reconciled tuition and fee receivables from fall semester of 1982 and summer semester of 1983 to its payment records to determine if the receivables were valid or if subsequent payments were received. The college had not periodically sent billings for these receivables because personnel had not yet verified the amounts to registration records, and/or records of subsequent credits. Waiting to bill these amounts reduces the chances of collecting them.

The college does not have written procedures for processing accounts receivable. Although the college has documentation explaining its computerized accounts receivable system, it has no documentation of how the computer system should (or does) relate to the college's manual records and the state's accounting system. Without adequate procedures to record amounts due from students, the college could be losing revenues and/or billing for invalid receivables.

RECOMMENDATION #5

WE RECOMMEND THE COLLEGE ESTABLISH WRITTEN PROCEDURES TO:

A. PLACE ONLY VALID RECEIVABLES ON ITS ACCOUNTING RECORDS.

B. BILL RECEIVABLES IN A TIMELY MANNER.

C. ESTABLISH AN ALLOWANCE FOR THE ESTIMATED AMOUNT OF ITS UNCOLLECTIBLE ACCOUNTS ON ITS ACCOUNTING RECORDS.

FEDERAL COMPLIANCE

During fiscal years 1984-85 and 1985-86, the college received money from various federal agencies. During our audit, we noted the following instances of non-compliance with federal regulations.

Food Service Contract

The college contracted with a food service to manage and operate its dining service. The food service employs the college's students, including College Work-Study students, and the college processes the food service's student payroll. The contract between the college and the food service states:

> "wages, hours of work, fringe benefits, and general conditions of employment of employees must be established and maintained in a manner consistent with the employee relations, State of Montana policies and prevailing wage rates, practices and conditions established by the [college] with respect to the other campus employees."

It is the state's and the college's policy, as well as good management practice, for supervisors to approve time cards, ensure time cards agree to time summaries, and approve time summaries. Following these policies and practices provides a good control for ensuring employees are paid the proper amount for work performed.

The college processes the food service's student payroll from a summary provided by the food service. The summary shows the number of hours each student employee worked. We reviewed the January 1986 summary, which was not approved by the food service manager. We reviewed three time cards that food service personnel believed supported the January 1986 summary. The time cards were not dated, neither the employee nor the employee's supervisor had signed any of the time cards, and the total hours on the time cards did not agree to the summary. Therefore, we question the allowability of $9,289 of federal College Work-Study disbursements made to student

employees of the food service contractor; $4,750 in fiscal year 1984-85 and $4,539 in fiscal year 1985-86.

Because good management practices and federal regulations require the college to maintain adequate supporting documentation of College Work-Study disbursements, the college should enforce its contract with the food service. College personnel stated they discussed this issue with the food service manager, who promised to implement the necessary changes, but they have not verified the changes were implemented. The college should ensure that the food service implements the changes required to comply with its contract.

RECOMMENDATION #6

WE RECOMMEND THE COLLEGE:

A. ENFORCE ITS CONTRACT WITH A FOOD SERVICE CONTRACTOR TO ENSURE COLLEGE WORK-STUDY DISBURSEMENTS ARE ADEQUATELY SUPPORTED.

B. REFUND $9,289 OF QUESTIONED FEDERAL COLLEGE WORK-STUDY COSTS TO THE DEPARTMENT OF EDUCATION.

Federal Reporting

Federal regulations require schools receiving financial aid moneys to complete and submit an annual Application and Fiscal Operations Report (FISAP), which summarizes financial aid activity at the school for that fiscal year. During our review of the college's FISAPs for fiscal years 1984-85 and 1985-86, we noted the following errors.

(1) The college included personal service expenditures of a contractor in the amount of institutional expenditures reported in the Maintenance of Effort section of the fiscal year 1984-85 FISAP. The college should exclude these expenditures because it does not manage and control the contractor's workers. As a result, the college overstated its reported maintenance of effort on the fiscal year 1984-85 FISAP by $24,002.

(2) College personnel made a $10,800 mathematical error in computing the college's maintenance of effort for fiscal year

1984-85. This error caused maintenance of effort to be understated on the fiscal year 1984-85 FISAP by $10,800.

(3) College personnel used an incorrect rate in computing the cost of board and room for residence hall advisors and managers. This error resulted in a $2,100 understatement of the maintenance of effort reported on the college's fiscal year 1985-86 FISAP.

College personnel stated the first error noted above occurred because the employee who completed the FISAP had been recently hired and was not yet familiar with the college's accounting system. They said the other mistakes resulted from human error. To prevent such errors in the future, the college employees who sign the FISAP should review the completed FISAP and supporting schedules more carefully for mathematical accuracy and compliance with federal reporting instructions. In April 1987, the college submitted amended FISAPs to the U.S. Department of Education to correct the above errors, and report the proper amount of maintenance of effort for fiscal years 1984-85 and 1985-86.

RECOMMENDATION #7

WE RECOMMEND THE COLLEGE IMPROVE REVIEW PROCEDURES TO PREVENT FUTURE FEDERAL REPORTING ERRORS.

Guaranteed Student Loans

Federal regulations (34 CFR Part 682) require schools to notify lenders who issue students Guaranteed Student Loans (GSL) whenever the students graduate, withdraw, or cease to be enrolled at least half-time. This notification enables the lenders to place the loans in repayment status. The college notifies GSL lenders of changes in students' enrollment status on a semi-annual Student Confirmation Report (SCR). After college personnel complete the SCR and send it back to a central processing company, the company uses the information to notify applicable lenders. Federal regulations require

the college to report the enrollment status change directly to the lender if it does not expect to submit its next SCR within 60 days.

For two of eighteen students tested, the college did not report enrollment status changes directly to the lenders, as required by the above federal regulation. In one instance, three months elapsed between the date enrollment status changed and the date the college reported the change on its next SCR. In the other instance, nearly seven months elapsed. To improve the ability to collect GSLs and ensure compliance with federal regulations, the college's financial aid office should establish a system for reporting enrollment status changes directly to lenders when it does not expect to submit its next SCR within 60 days.

RECOMMENDATION #8

WE RECOMMEND THE COLLEGE ESTABLISH PROCEDURES FOR REPORTING ENROLLMENT STATUS CHANGES IN ACCORDANCE WITH FEDERAL REGULATIONS.

DATA PROCESSING CONTROLS

In our prior audit report, we recommended the college establish adequate data processing controls. Although the college's data processing controls have improved, we identified continuing concerns related to computer access, fire protection, and disaster recovery at the college. College personnel stated their data processing activities are small, so they do not believe extensive controls are necessary. Although the college's computer organization is small, the items noted below are controls that could, and should, be in effect for a computer operation regardless of its size.

(1) The college does not regularly change passwords used to access critical applications (e.g., payroll, student enrollment, financial aid, and accounts receivable). Also, easily guessed passwords, such as user or system names, are used in some instances. To reduce the potential for unauthorized access to critical system applications, users should periodically change passwords and use names or numbers that are not easily guessed.

(2) The college does not maintain logs of jobs processed to detect unauthorized uses of its computer system. The use and review of job logs will enable college officials to better monitor access to the college's critical applications.

(3) The college's computer facility, which contains no smoke alarms, is not adequately protected against fire damage. Because smoke alarms detect fires early, they are one of the least expensive means of reducing fire damage. At a minimum, college personnel should install smoke alarms in the computer center.

(4) The college does not have a written contingency plan for the recovery of data processing applications following a disaster. Lack of a written plan could cause unnecessary delay and excessive costs in recovering critical applications. The college should provide for the replacement of records that may be destroyed and the continuity of operations following a major hardware or software failure. The college can accomplish this through either manual systems, or other computer systems, but the plan should be written. College personnel indicated that since the college is being combined with the University of Montana, which has a similar computer, they will work with the university regarding disaster recovery.

RECOMMENDATION #9

WE RECOMMEND THE COLLEGE IMPLEMENT ADEQUATE COMPUTER ACCESS, FIRE PROTECTION, AND DISASTER RECOVERY CONTROLS.

PROPERTY ACCOUNTING AND CONTROL

State accounting policies and sound management practices require a system to account for and control property, plant, and equipment. Adequate property control procedures and accounting records are essential for the protection of college property.

Prior to June 30, 1985, the college's property system was not auditable. In the prior audit report we recommended that the college complete implementation of its property system. College personnel made progress in implementing the college's property system and in

accounting for its property during the past year. Their progress was sufficient to enable us to audit the college's property system.

Although we were able to conclude on the reasonableness of the $8,619,512 property amount presented on the college's June 30, 1986 Balance Sheet, we noted the following accounting and control issues during our audit of the college's property system.

(1) The cost of the college's Office-Classroom complex is overstated and the cost of its Main Hall understated by nearly $600,000 and the cost of its telephone system is understated by $50,000 on the college's property records. The college should correct the costs on its records.

(2) We noted the following instances of noncompliance with Chapter 2-1700 of the Montana Operations Manual, which contains the state's property accounting policies:

(a) The college last performed a physical inventory of its fixed assets during spring 1985. State policy requires an annual inventory be taken when the fixed asset inventory system is periodic, rather than perpetual.

(b) Not all property items at the college were tagged.

(c) Not all equipment items (1 of 15 items tested) were recorded on the college's property records.

(d) Some property items were in a location different from that listed on the college's property system.

(e) In July 1986, college personnel disposed of some property without going through Surplus Property.

(f) Not all computer software costs were segregated from computer equipment costs.

(3) The college's property accounting system totals do not agree to the summary amounts on its accounting records and the state's Property Accountability and Management System. The college should ensure the amounts on all three systems agree.

(4) Library books are reported on the college's records at the cost of acquisitions made from fiscal year 1976-77 through fiscal year 1984-85. The records do not include the cost of acquisitions made prior to fiscal year 1976-77 and during fiscal year 1985-86 that were in the library's inventory at June 30, 1986. The records do not exclude the cost of acquisitions made during fiscal years 1976-77 to 1984-85 that

were lost or stolen prior to June 30, 1986. The college should record the acquisition cost of library books on hand at June 30 on its property and accounting records.

College personnel should review and implement procedures to comply with state policy for property accounting and management. The college should also complete implementation of the college's property accounting and management system by recording its property at the correct cost and ensuring the totals on its property system agree to the college's accounting records.

College personnel stated the property accounting issues noted above resulted from human error and a lack of resources. They indicated the college used to commit one-half an FTE plus some student help to property accounting and control. After the half-time person left, the function was assigned to the college's accountant to work on in her spare time.

RECOMMENDATION #10

WE RECOMMEND THE COLLEGE:

A. COMPLY WITH STATE POLICY FOR PROPERTY ACCOUNTING AND MANAGEMENT.

B. COMPLETE IMPLEMENTATION OF ITS PROPERTY ACCOUNTING SYSTEM.

ASSOCIATED STUDENT ORGANIZATIONS

The Associated Students of Western Montana College (ASWMC) is an organization representing all registered students at the college. The Board of Regents and the college administration do not take an active role in the day-to-day operations of ASWMC. However, the student organization must follow the University System policies and procedures. According to these policies, ASWMC's constitution is subject to approval by the President of the college, and ASWMC must follow applicable state and federal laws/regulations and Regents'/unit

policies. These include, but are not limited to, purchasing, travel, personnel, and accounting.

ASWMC receives funding from mandatory student activity fees established by the Board of Regents, receipts from all activities and benefits conducted by ASWMC, and from donations. ASWMC also operates a day care center for children of college students, faculty, and staff. Currently, the college accounts for ASWMC fund raising and day care center activities in an agency fund. Student activity fees are disbursed from the Designated Fund to various student clubs in the Agency Fund. According to generally accepted accounting principles, an agency fund is used to account for the resources held by the college as a custodian or fiscal agent for individual students, faculty, staff members, and organizations. Officials from the Office of the Commissioner of Higher Education (CHE) stated the college and the Board of Regents exercise significant control by establishing policies which the student organization must follow. Accordingly, the activities do not meet the criteria of an agency fund and should be recorded in the Designated Fund. The Designated Fund is used to account for resources that are internally designated by the governing board. During fiscal year 1985-86, ASWMC collected over $113,000 and expended over $120,000, including $52,000 and $54,000, respectively, from its day care center operations.

On February 4, 1987, CHE notified the college that the accounting and financial reporting of student organizations would be moved from the Agency Fund to the Designated Fund. Accordingly, we make no recommendations.

AUDITOR'S OPINION LETTER

AND COLLEGE FINANCIAL STATEMENTS

SUMMARY OF AUDIT OPINION

We issued a qualified opinion on Western Montana College financial statements for fiscal years 1984-85 and 1985-86. The qualifications occurred because the June 30, 1984 and 1985 fixed asset (fund) balances could not be audited. The qualified opinion indicates that, although we were able to audit the June 30, 1986, fixed asset balance, a user of the financial statements should exercise caution when using amounts presented in the Investment in Plant Fund on the Statements of Changes in Fund Balances for the fiscal years ended June 30, 1985 and 1986.

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

SCOTT A. SEACAT
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:

JAMES GILLETT
FINANCIAL-COMPLIANCE AUDITS

JIM PELLEGRINI
PERFORMANCE AUDITS

LEGAL COUNSEL:

JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the accompanying Balance Sheet of Western Montana College at June 30, 1986, and the related Statements of Changes in Fund Balances and Current Funds Revenues, Expenditures and Other Changes for each of the two fiscal years then ended. Except as explained in paragraph two, our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Records supporting the cost of buildings, land, and equipment were not such as would permit us to apply procedures to satisfy ourselves regarding the cost of the college's fixed assets at June 30, 1984 and 1985. Therefore, we could not determine the reasonableness of the amounts presented for the Investment in Plant Fund on the Statements of Changes in Fund Balances for the fiscal years ended June 30, 1985 and 1986.

The financial statements presented are only for Western Montana College. Accordingly, the accompanying financial statements are not intended to present fairly the financial position of the state of Montana as of June 30, 1986, or the results of its operations and changes in its fund balances for the two fiscal years then ended, in conformity with generally accepted accounting principles.

In our opinion, except for the effects of the matters discussed in paragraph two, the financial statements referred to above present

fairly the financial position of Western Montana College as of June 30, 1986, the changes in its fund balances, and the current funds revenues, expenditures, and other changes for each of the two years then ended in conformity with generally accepted accounting principles which have been applied on a consistent basis.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Full-Time Equivalent (FTE) Students for the two fiscal years ended June 30, 1986, is presented as supplemental information and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our examination of the basic financial statements. In our opinion, except for the effects of the matters discussed in paragraph two, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

November 19, 1986

WESTERN MONTANA COLLEGE
BALANCE SHEET
JUNE 30, 1986

	CURRENT FUNDS		LOAN	PLANT FUNDS		AGENCY
	Unrestricted	Restricted	FUNDS	Unexpended Plant and Retirement of Indebtedness	Investment in Plant	FUNDS
ASSETS:						
Cash	$ 150,478	$338,000	$ 39,259	$ 77,613		$6,719
Due from Other Agencies				1,354,167		
Accounts Receivable	190,975	6,090	3,170	106,872		
Allowance for Doubtful Accounts	(35,746)					
Inventories	107,018					
Prepaid Expenses	95,541			29,859		
Investments		3,609	24,331	155,335		
Student Loan Advances Receivable			4,112			
Loans Receivable:						
Student Loans			476,700			
Allowance for Doubtful Accounts			(36,231)			
Land, Buildings, Equipment and Library Books					$8,619,512	
Total Assets	508,266	347,699	511,341	1,723,846	8,619,512	6,719
LIABILITIES:						
Deposits	20,014					
Deferred Revenue	91,048	240,580		29,859		
Accounts Payable	385,146	62,162	654	10,240		6,494
Liability for Compensated Absences	302,786	14,237				240
Bonds Payable				1,373,271	1,079,089	
Installment Purchase Payable					441,768	
Property Held in Trust						(15)
Total Liabilities	798,994	316,979	654	1,413,370	1,520,857	6,719
Fund Balance	(290,728)	30,720	510,687	310,476	7,098,655	-0-
TOTAL LIABILITIES AND FUND BALANCES	$ 508,266	$347,699	$511,341	$1,723,846	$8,619,512	$6,719

See accompanying notes to the financial statements

WESTERN MONTANA COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 1986

	CURRENT FUNDS		LOAN	PLANT FUNDS		
	Unrestricted	Restricted	FUNDS	Renewals & Replacements	Unexpended Plant and Retirement of Indebtedness	Investment in Plant
Revenues & Other Additions:						
Educational and General	$3,949,554					
Designated Funds	311,643					
Auxiliary Enterprises	1,216,888					
Government Grants and Support		$1,038,385				
Private Gifts and Grants		87,831				
Interest on Loans Receivable			$ 17,803			
Investment Income-Restricted					$ 28,434	
Student Fees-Restricted					86,660	
Land Grant Income-Restricted					268,611	
Expended for Plant Facilities						$ 224,424
Retirement of Indebtedness						72,808
Move Equity to Net Investment in Plant					80,896	
Total Revenues & Other Additions	5,478,085	1,126,216	17,803	-0-	464,601	297,232
Expenditures & Other Deductions:						
Educational & General	3,920,189	1,092,424				
Designated Funds	312,751					
Auxiliary Enterprises	1,348,562	33,792				
Loan Cancellations			9,092			
Administration & Collection Cost			16,228			
Operating Expenses				36,185	119,822	
Retirement of Indebtedness					85,808	
Interest of Indebtedness					39,287	
Transfer to Department of Administration					118,497	
Total Expenditures & Other Deductions	5,581,502	1,126,216	25,320	36,185	363,414	-0-
Transfers Among Funds - Additions (Deductions):						
Nonmandatory	97,295			36,185	(133,480)	
Mandatory:						
Sinking Fund	(9,380)					
Agency Fund					9,380	
Total Transfers	87,915	-0-	-0-	36,185	(124,100)	-0-
Net Increase(Decrease) for the Year	(15,502)	-0-	(7,517)	-0-	(22,913)	297,232
Fund Balance at the Beginning of the Year	(239,010)	32,582	520,987	-0-	293,674	6,465,485
Prior Year Adjustment & Other	(36,216)	(1,862)	(2,783)	-0-	39,715	335,938
Fund Balance (Deficit) at the End of Year	$ (290,728)	$ 30,720	$510,687	$ -0-	$ 310,476	$7,098,655

See accompanying notes to the financial statements.

WESTERN MONTANA COLLEGE
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES
AND OTHER CHANGES
FOR THE FISCAL YEAR ENDED JUNE 30, 1986

	CURRENT FUNDS		
	Unrestricted	Restricted	Total
Revenues:			
Educational and General			
Tuition and Fees	$ 718,360		$ 718,360
State Government Support	3,206,453	$ 8,834	3,215,287
Government Grants		1,029,551	1,029,551
Indirect Costs Recovered	18,205		18,205
Miscellaneous Collections	6,536		6,536
Private Grants	-0-	87,831	87,831
Total Educational and General	3,949,554	1,126,216	5,075,770
Designated Funds	311,643		311,643
Auxiliary Enterprises	1,216,888		1,216,888
Total Revenues	5,478,085	1,126,216	6,604,301
Expenditures and Mandatory Transfers:			
Educational and General			
Instruction	1,790,394	130,662	1,921,056
Academic Support	243,795	30,883	274,678
Student Services	585,341	66,489	651,830
Institutional Support	537,460	90,611	628,071
Operation of Plant	688,142	47,297	735,439
Student Aid	75,057	726,482	801,539
Total Educational and General	3,920,189	1,092,424	5,012,613
Designated Funds - Instruction			
Expenditures	312,751		312,751
Mandatory Transfers	-0-		-0-
Total Designated	312,751	-0-	312,751
Auxiliary Enterprises:			
Expenditures	1,348,562	33,792	1,382,354
Mandatory Transfers for Principal and Interest	9,380		9,380
Total Auxiliary Enterprises	1,357,942	33,792	1,391,734
Total Expenditures and Mandatory Transfers	5,590,882	1,126,216	6,717,098
Nonmandatory Transfers	97,295		97,295
NET INCREASE (DECREASE) IN FUND BALANCE	$ (15,502)	$ -0-	$ (15,502)

See accompanying notes to the financial statements.

WESTERN MONTANA COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 1985

	CURRENT FUNDS		LOAN	PLANT FUNDS		
	Unrestricted	Restricted	FUNDS	Renewal & Replacement	Unexpended Plant and Retirement of Indebtedness	Investment in Plant
Revenues & Other Additions:						
Educational and General	$3,762,717					
Designated Funds	195,582					
Auxiliary Enterprises	1,220,551					
Government Grants and Support		$736,431				
Private Gifts and Grants		146,692				
Interest on Loans Receivable			$ 15,373			
Investment Income-Restricted					$ 15,109	
Student Fees-Restricted					134,083	
Land Grant Income-Restricted					99,578	
Expended for Plant Facilities						$ 256,063
Retirement of Indebtedness						65,000
Total Revenues & Other Additions	5,178,850	883,123	15,373	-0-	248,770	321,063
Expenditures & Other Deductions:						
Educational & General	3,758,588	834,775				
Designated Funds	214,056					
Auxiliary Enterprises	1,297,707	48,348				
Loan Cancellations			15,175			
Administration & Collection Cost			18,380			
Operating Expenses					46,400	
Retirement of Indebtedness					74,000	
Interest of Indebtedness					35,246	
Loan Write-offs			28,094			
Total Expenditures & Other Deductions	5,270,351	883,123	61,649	-0-	155,646	-0-
Transfers Among Funds - Additions (Deductions):						
Nonmandatory	113,626				(113,626)	
Mandatory:						
Sinking Fund	(47,005)				47,005	
Agency Fund		897				
Total Transfers	66,621	897	-0-	-0-	(66,621)	-0-
Net Increase(Decrease) for the Year	(24,880)	897	(46,276)		26,503	321,063
Fund Balance at the Beginning of the Year	(216,197)	30,321	567,454		278,152	5,691,146
Prior Year Adjustment	2,067	1,364	(191)		(10,981)	453,276
Fund Balance (Deficit) at the End of Year	$ (239,010)	$ 32,582	$520,987	$ -0-	$293,674	$6,465,485

See accompanying notes to the financial statements.

WESTERN MONTANA COLLEGE
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES
AND OTHER CHANGES
FOR THE FISCAL YEAR ENDED JUNE 30, 1985

	CURRENT FUNDS		
	Unrestricted	Restricted	Total
Revenues:			
Educational and General			
Tuition and Fees	$ 642,631		$ 642,631
State Government Support	3,093,394	$ 10,335	3,103,729
Government Grants		726,096	726,096
Indirect Costs Recovered	17,344		17,344
Miscellaneous Collections	9,348		9,348
Private Grants		146,692	146,692
Total Educational and General	3,762,717	883,123	4,645,840
Designated Funds	195,582		195,582
Auxiliary Enterprises	1,220,551		1,220,551
Total Revenues	5,178,850	883,123	6,061,973
Expenditures and Mandatory Transfers:			
Educational and General:			
Instruction	1,631,942	113,865	1,745,807
Academic Support	341,719	23,685	365,404
Student Services	472,931	61,178	534,109
Institutional Support	601,681	7,700	609,381
Operation of Plant	630,854	46,644	677,498
Student Aid	63,998	581,703	645,701
Compensated Absences	15,463		15,463
Total Educational and General	3,758,588	834,775	4,593,363
Designated Funds - Instruction	214,056	-0-	214,056
Auxiliary Enterprises:			
Expenditures	1,297,707	48,348	1,346,055
Mandatory Transfers:			
Principal and Interest	47,005		47,005
Agency Fund		(897)	(897)
Total Auxiliary Enterprises	1,344,712	47,451	1,392,163
Total Expenditures and Mandatory Transfers	5,317,356	882,226	6,199,582
Nonmandatory Transfers	113,626		113,626
NET INCREASE (DECREASE) IN FUND BALANCE	$ (24,880)	$ 897	$ (23,983)

See accompanying notes to the financial statements.

WESTERN MONTANA COLLEGE

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 1986

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accrual Basis

The financial statements of Western Montana College have been prepared on the accrual basis except for depreciation accounting. The statement of current funds revenue, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period and does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenditures.

Fund Accounting

The accompanying financial statements are prepared in accordance with the principles of "fund accounting" wherein resources are classified by the limitations and restrictions placed upon their use. These separate funds are then combined according to their common characteristics into fund groups (each an accounting entity complete with a self-balancing set of accounts) and reflected by fund groups in the accompanying financial statements.

Descriptions of the common characteristics of the funds in the various fund groups are as follows:

Current Funds - the current funds group includes economic resources expendable in performing the primary objectives of the institutions, i.e., instruction and public service. The current funds group has two basic distinct sub-groups. Unrestricted funds which have no external expenditure restrictions, and restricted funds which have external expenditure restrictions.

Loan Funds - this group of resources is available to aid in financing qualifying students' education. Private as well as College resources provide some loan funds, however, the federal government contributes the large majority.

Plant Funds - plant funds are separated into three distinct sub-groups with self-balancing accounts:

Renewal & Replacement Fund - utilized for long-term institutional asset maintenance.

Unexpended Plant and Retirement of Indebtedness Funds - utilized for acquisition of long-term institutional assets and debt service charges and retirement of indebtedness on long-term institutional assets.

Investment in Plant - denotes the cost of long-term institutional assets and associated liabilities.

Agency Funds - the agency funds group is used to segregate assets held by the institution as a custodian or fiscal agent for other organizations or individuals.

Appropriations

Appropriations in the Current Unrestricted Fund are made by the Legislature for operating purposes of Western Montana College. Expenditures against these appropriations are funded by corresponding funds at the state level. Unexpended or unencumbered balances in these appropriations revert to the respective state funds at year-end.

2. INVESTMENTS

All investments are recorded at cost. Investment income is generally recorded when earned. The investments of Western Montana College consist primarily of amounts invested through the Montana State Board of Investments using its Short-term Investment Pool and United States Treasury Bills and Money Market Funds.

Investments owned by the several funds at June 30, 1986, are as follows:

	Cost	Market or Unit Value
Current Restricted Funds	$ 3,609	$ 3,609
Plant Funds:		
Retirement of Indebtedness	155,335	155,335
Loan Funds	24,331	24,331
Total	$183,275	$183,275

3. INVENTORIES

Inventories included are merchandise from the bookstore, vending, and snack bar and supplies from the business office and physical plant. All recorded inventories are stated at cost using the first-in/first-out method.

4. VACATION PAY AND SICK PAY

The value of unused vacation and unused sick leave accumulated by employees can accumulate and carry over a maximum of two years vacation into a new calendar year. Unused accumulated vacation is redeemed in cash upon termination of employment. Upon termination, unused sick leave earned since July 1, 1971, is purchased from the employee at 25 percent value. The amount of accumulated leave at June 30, 1986 was $317,263.

5. UNEARNED INCOME

Summer school revenues and related expenditures are deferred at June 30 and recorded as revenue and expenditures in the succeeding fiscal year.

6. BONDS AND INSTALLMENT PURCHASE PAYABLE

At June 30, 1986, the college has a total of $2,894,127 in outstanding bonds and installments payable. The bonds were

issued for construction of various college facilities and are summarized as follows:

"1966 Indenture" to build a three-story dormitory. There are $663,000 of bonds outstanding at June 30, 1986. They are due in varying annual installments (on October 1st) through 2006. The annual debt service for the year ended June 30, 1986, was $79,586. The maximum annual debt service requirement of $88,415 took place in the year ended June 30, 1985. The bonds bear interest from 2-3/4 percent to 3½ percent per annum with semi-annual payment dates (April 1st to October 1st). The indenture requires that net annual earnings of the college's housing and dining system and fees pledged under the indenture be sufficient to make deposits to sinking fund trust accounts in order that these accounts may meet current debt requirements and maintain a fixed reserve. The earning requirement was not met as of June 30, 1986. The net revenues of the college's housing and dining system, student union fees and student building fees are pledged to this indenture as long as required balances in trust accounts are maintained.

"1967 Indenture" to build a physical education building and install necessary equipment. There are $341,000 of bonds outstanding at June 30, 1986. They are due in installments (on July 1st) through 1997. The annual debt service for the year ended June 30, 1986 was $36,149. The bonds bear interest from 3 percent to 5¼ percent per annum with semi-annual payment dates (January 1st and July 1st). Annual earnings from fees and income pledged to this indenture must be sufficient to maintain a required balance in the sinking fund trust account. The earnings requirement was met as of June 30, 1986. The necessary amount of Physical Education Building fees, land grant income and usage charges are pledged to the indenture to maintain required balances in the trust account.

"1985 Series F Loan" to finance the cost of acquisition and installation of computer hardware, computer software, and various other types of computer related equipment. There is $94,192.33 in principal payments outstanding on the loan as of June 30, 1986. They are due in semiannual installments on June 15th and December through 1992. The annual debt service for the year ended June 30, 1986 was $9,359,75. The loan bears interest at 7.75 percent and is funded through student computer fees.

"1985 Series A General Obligation Bond" to finance the costs of construction and equipping a swimming pool addition to the physical education facility. The bond proceeds amounted to $1,400,000 on July 24, 1985, with an average of 7.677 percent interest on the coupons. Monthly payments of principal and

interest in the amount of $14,335.37 were paid during fiscal year 1985-86. Initial payment was due August 25, 1985, and continues on the 25th of each month thereafter until bond maturity on August 1, 2000. The maximum annual debt service requirement of $172,750.09 will occur in fiscal year 1998-99. While the bonds remain the general obligation of the state of Montana, the Board of Regents have entered into an agreement which obligates Western Montana College to pay the State Treasurer an amount sufficient to pay the principal and interest due on the bonds. Revenues derived from land grant income building fees and usage charges are pledged to pay the obligation. There remains $1,354,166.74 in principal payments outstanding on the bonds as of June 30, 1986. As of June 30, 1986, the college had not yet entered into a construction contract.

The college entered into various installment purchase contracts to purchase major equipment. The total principal amount outstanding at June 30, 1986, is $441,768.27. The major portion of this debt is attributed to a telecommunications system purchased on July 1, 1984. According to the terms of the contract the college purchased $499,132.68 of telecommunications equipment due in monthly installments for a period of 10 years with interest accruing at a rate of 11.5 percent per year. The scheduled monthly payments of principal and interest amount to $7,018. The principal amount outstanding on the contract as of June 30, 1986, is $409,754.19.

The college records interest expense on these bonds when paid. The recognition of accrued interest would not have a material effect on the college's over-all financial position.

The annual payments for all bond and loan requirements are as follows:

	1966 Indenture	1967 Indenture	1985 Loan	1985 G.O. Bond
1987	$ 35,000	$ 23,000	$11,640.86	$ 50,000.00
1988	35,000	23,000	12,560.70	59,166.74
1989	35,000	25,000	13,552.80	69,166.63
1990	35,000	25,000	14,623.49	70,000.00
1991-1997	246,000	245,000	41,814.48	670,416.55
1998-2006	277,000			435,416.82
	$663,000	$341,000	$94,192.33	$1,354,166.74

7. INVESTMENT IN PLANT

Physical plant, equipment, and library books are stated at cost or historically based appraisal values. Depreciation on physical plant and equipment is not recorded. Equipment costing less than $200 is excluded from the financial statements.

8. RETIREMENT PROGRAMS

Retirement benefits are provided for the academic and certain professional staff through the Montana Teachers' Retirement System (TRS) and all other staff through the Montana Public Employees' Retirement System (PERS). Both plans are operated by the state of Montana and membership is compulsory for the respective classes of employees. Contributions are shared by the participant's salary to TRS and PERS.

Defined benefits under both plans are based on years of service and final average of the participants. The actuarial present value of vested benefits and the amount, if any, of unfunded past service costs for employees covered under the plans was determined actuarially sound as reported by the systems' actuary at June 30, 1985 for the Teachers' Retirement System and at June 30, 1986 for the Public Employees' Retirement System. The college's share of the cost of these plans for the year ended June 30, 1986, was $217,909.

WESTERN MONTANA COLLEGE
SCHEDULE OF FULL-TIME EQUIVALENT (FTE) STUDENTS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1986

Semester	Year	Undergraduate FTEs Reported [1]	Graduate FTEs Reported [2]	Total FTEs Reported
Summer	1984	187	24	211
Autumn	1984	782	11	793
Spring	1985	744	12	756
Summer	1985	110	57	167
Autumn	1985	762	13	775
Spring	1986	751	15	766

[1] Undergraduate quarterly credit hours divided by 15.

[2] Graduate quarterly credit hours divided by 12.

COLLEGE RESPONSE

WESTERN

MONTANA COLLEGE

May 13, 1987

RECEIVED
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MONTANA LEGISLATIVE
AUDITOR

Scott A. Seacat
Legislative Auditor
Room 135, State Capitol
Helena, MT 59620

Dear Mr. Seacat:

This letter is in response to the audit of Western Montana College for the two fiscal years ended June 30, 1986.

Attached are our specific responses to your audit recommendations.

Sincerely,

Glen D. Leavitt

Glen D. Leavitt
Director of Fiscal Affairs

GDL/ds

WESTERN MONTANA COLLEGE IS A UNIT WITHIN THE MONTANA UNIVERSITY SYSTEM. DILLON, MT 59725 (406) 683-7011

RECOMMENDATION #1

WE RECOMMEND THE COLLEGE:

A. ENSURE THE DEBT SERVICE REQUIREMENTS OF THE 1966 REVENUE BOND INDENTURE ARE MET.

A. Concur.

RESPONSE:

Western has, as indicated in the report, increased building fees from $15 to $30 per semester, established a student union use fee, and transferred $50,000 from our 1967 Revenue Bond Indenture. In FY 1987 our dorm occupancy is up 17 percent, and we expect to generate some net income toward the deficit. For FY 1988 we have contingency plans to close a residence hall and reduce staff if enrollment declines. We are planning a 5 percent fee increase.

B. ADDRESS THE OPERATING FUND DEFICIT FOR THE 1966 REVENUE BOND.

B. Concur.

RESPONSE:

Western will seek Regent's authority for transfers from the 1967 Revenue Bond account in FY 1987 and FY 1988 to eliminate the operating account deficit.

RECOMMENDATION #2

WE RECOMMEND THE COLLEGE:

A. SEEK AUTHORIZATION FOR AN INTER-ENTITY LOAN WHEN CASH BALANCES ARE NOT SUFFICIENT TO PAY LIABILITIES IN A TIMELY MANNER.

A. Concur.

RESPONSE:

The College will record inter-entity loans when cash balances are not sufficient.

B. RECORD AND REIMBURSE THE GENERAL OPERATING FUND FOR AUXILIARY FUND UTILITY EXPENITURES IN A TIMELY MANNER.

B. Concur.

RESPONSE:

At April 30, 1987 utilities for the months of July 1986 thru March 1987 were charged to the Auxiliary Fund. A more accurate system of measuring utility usuage throughout the campus has been developed. We shall proceed immediately to book future utility expenditures to the Auxiliary Fund in a consistent and timely manner.

RECOMMENDATION #3

WE RECOMMEND THE COLLEGE RECORD ALL ITS FINANCIAL ACTIVITY IN ACCORDANCE WITH STATE ACCOUNTING POLICY.

Concur.

RESPONSE:

Correcting entries have been made to the state's financial accounting system for items (1) and (2). Items (3), (4), (5), (6) and (7) have no present or future affect on fund balance or financial statement activity. Accordingly correcting entries will not be booked to the state's financial accounting system. The scholarships, and value of room and board as mentioned in items (4) and (5) are now being properly recorded on the state's financial accounting system. In reference to item number (7), the college took over operations of the food service on February 1, 1987. Part of the final settlement negotiation was to waive the student payroll reimbursement for fiscal year 1987. Accordingly, no correcting entry is needed at this time.

We are committed to accurate and timely recording of accounting transactions in accordance with state policy and generally accepted accounting principles. Additional care shall be exercised when recording and analyzing the college's financial activity. More emphasis will be given to update and further educate college personnel in accounting and other business related matters.

RECOMMENDATION #4

WE RECOMMEND THE COLLEGE COMPLY WITH THE STATE LAW REQUIRING THE REVERSION OF DESIGNATED FUND INVESTMENT EARNINGS TO THE GENERAL FUND.

Concur.

RESPONSE:

Western has reverted the designated investment earnings to the state General Fund.

RECOMMENDATION #5

WE RECOMMEND THE COLLEGE ESTABLISH WRITTEN PROCEDURES TO:

A. PLACE ONLY VALID RECEIVABLES ON ITS ACCOUNTING RECORDS.

B. BILL RECEIVABLES IN A TIMELY MANNER.

C. ESTABLISH AN ALLOWANCE FOR THE ESTIMATED AMOUNT OF ITS UNCOLLECTIBLE ACCOUNTS ON ITS ACCOUNTING RECORDS.

Concur.

RESPONSE:

While we concur with the findings and recommendations of the accounts receivable system as stated in recommendation no. 5 a few points of clarification need to be addressed. The College under went a computer system conversion during fiscal year 1983 affecting the accounts receivable system. Most problems encountered with the system refer back to that troubled period. $25,575.00 of the total receivables relate to that conversion period. Those accounts will be written off.

Most recent years of managing receivables will attest to improvements in the system and a current uncollectible rate of about one percent. The College will have written procedures established by July 1, 1987.

RECOMMENDATION #6

WE RECOMMEND THE COLLEGE:

A. ENFORCE ITS CONTRACT WITH A FOOD SERVICE CONTRACTOR TO ENSURE COLLEGE WORK-STUDY DISBURSEMENTS ARE ADEQUATELY SUPPORTED.

B. REFUND $9,289 OF QUESTIONED FEDERAL COLLEGE WORK-STUDY COSTS TO THE DEPARTMENT OF EDUCATION.

A. Concur.

B. Disagree.

RESPONSE:

The recommended changes were implemented during the Fall of 1987 and verified by college personnel. However, effective January 31, 1987 the food service contractor terminated his contract and the College took over operations. The College is currently managing the food service operation and accordingly payroll records are now maintained by the College.

We disagree with refunding the $9,289 of questioned federal college work-study costs to the Department of Education. The students were paid in good faith by the contractor. If there had been problems with the hours paid, our payroll clerk would have been made aware of the situation by the students and the food service contractor notified of any discrepancy. Our cashiers in the business office distribute the pay checks directly to the students.

The food service contractor was faced with management turnover. The latest manager was unsure which supporting time cards filed away related to which payroll. We attempted to do a full audit of the contractors payroll records only to find that records a year old were discarded by the contractor. Accordingly we are left without an avenue to accurately defend the questioned work-study costs. Western will seek a waiver from the Federal Department of Education.

RECOMMENDATION #7

WE RECOMMEND THE COLLEGE IMPROVE REVIEW PROCEDURES TO PREVENT FUTURE FEDERAL REPORTING ERRORS.

Concur.

RESPONSE:

The return will be reviewed for accuracy before signing the return.

RECOMMENDATION #8

WE RECOMMEND THE COLLEGE ESTABLISH PROCEDURES FOR REPORTING ENROLLMENT STATUS CHANGES IN

ACCORDANCE WITH FEDERAL REGULATIONS.

Concur.

RESPONSE:

The financial aid office has implemented a system of monitoring withdrawals and other enrollment changes such as withdrawals, graduations and drops in enrollment to less than half time. The enrollment status change is then appropriately reported on the back of the Notice of Loan Guarantee and Disclosure Statement. The statement is sent to the lender the same day in the case of a withdrawal, or monthly in the case of enrollment drops to less than half time. The disclosure statement is then documented in the student file. This procedure is now implemented in addition to the semi-annual Student Status Confirmation Report filed with the Department of Education.

RECOMMENDATION #9

WE RECOMMEND THE COLLEGE IMPLEMENT ADEQUATE COMPUTER ACCESS, FIRE PROTECTION, AND DISASTER RECOVERY CONTROLS.

Concur.

RESPONSE:

(1) Passwords: On Western's new VAX, passwords are known only to the user and expire automatically every 180 days. We have issued a directive instructing computer users to select a new password at that time.

(2) Job Logs: All administrative computer applications are on-line and not batch processed. This greatly negates the usefulness of a traditional job log. However, we will generate lists of when particular accounts are opened. This will indicate if accounts are opened at unusual times.

(3) Smoke Alarms: The long range building program passed by the 50th Legislature includes a project to install and repair smoke alarms at Western. This project will include the installation of a remote reporting smoke alarm in the computer center.

(4) Contingency Plan: Under the merger with the University of Montana, Western will develop a written disaster recovery plan and develop a written agreement with UM.

RECOMMENDATION #10

WE RECOMMEND THE COLLEGE:

A. COMPLY WITH STATE POLICY FOR PROPERTY ACCOUNTING AND MANAGEMENT.

B. COMPLETE IMPLEMENTATION OF ITS PROPERTY ACCOUNTING SYSTEM.

Concur.

RESPONSE:

Efforts are currently underway to ensure compliance with State Policy for Property and Accounting Management, including the taking of an annual equipment inventory. To ensure the completion of implementing and maintaining the college property accounting system, management has committed an additional half-time staff member to property management control, effective May 1, 1987. An annual inventory will be completed by June 30, 1987. Expected completion time for total implementation is October 31, 1987.